

**Hughes County Rural Water District No. 4
Holdenville, Oklahoma**

Financial Statements and
Reports of Independent Auditor

June 30, 2023

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

Broken Arrow, Oklahoma

**Hughes County Rural Water District No. 4
Holdenville, Oklahoma**

Board of Directors
June 30, 2023

Chairman

Jim Cates

Vice Chairman

Bill Newman

Secretary/Treasurer

Lori Ramsey

Members

Sandy Stafford
Kent Dowell

Bookkeeper

Phallis Taylor

Management

Taylor Backhoe

Hughes County Rural Water District No. 4
Holdenville, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hughes County Rural Water District No. 4
Holdenville, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Hughes County Rural Water District No. 4, Holdenville, Oklahoma (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023, and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year “memorandum only” comparative information and the supplementary information on page 13 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2023 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

September 15, 2023



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Hughes County Rural Water District No. 4
Holdenville, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Hughes County Rural Water District No. 4, Holdenville, Oklahoma (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 15, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did identify one deficiency in internal controls that we consider to be a material weakness. This finding is identified as item 23-1 in the accompanying schedule of Audit Results.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

September 15, 2023

Hughes County Rural Water District No. 4
Holdenville, Oklahoma
Schedule of Audit Results
June 30, 2023

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, item 23-1, which was considered a material weakness.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

23-1 Internal Control – Segregation of Duties

Criteria – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition - Presently the same individual performs all accounting functions; receives utility service-related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Management Response – Management agrees with this finding, and will provide adequate staffing once annual collections increase enough to justify the extra expense.

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Net Position
June 30, 2023

	June 30, 2023	-Memorandum- -Only- June 30, 2022
<u>ASSETS</u>		
Current assets:		
Cash in bank	\$ 167,251	117,119
Accounts receivable	18,352	17,864
Prepaid insurance	2,614	2,023
Total current assets	188,217	137,006
Noncurrent assets:		
Note issuance costs, net of amortization	657	1,092
Deposit - ORWA	1,000	1,000
Capital assets:		
Water system and improvements, net of depreciation	93,392	105,618
Total noncurrent assets	95,049	107,710
Total Assets	\$ 283,266	244,716
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 0	\$ 0
 <u>NET POSITION</u>		
Net investment in capital assets	93,392	105,618
Unrestricted assets	189,874	139,098
Total Net Position	283,266	244,716
Total Liabilities and Net Position	\$ 283,266	244,716

The accompanying notes to the financial statements are an integral part of this statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended June 30, 2023

	2022-23	-Memorandum- -Only- 2021-22
Operating Revenues:		
Water sales and services	\$ 234,221	229,481
Other sources	5,981	1,459
Total revenues from operations	240,202	230,940
Operating Expenses:		
Water purchases	120,571	114,997
Contract Labor	35,779	37,335
Road bore	49,500	0
Depreciation	20,476	20,063
Amortization	435	435
Repairs & maintenance	25,121	25,052
Billing services	3,887	3,590
Insurance	2,299	2,163
Operating supplies	16,189	6,509
Utilities	1,601	1,003
Water samples	1,688	1,810
Professional fees	8,737	6,757
Office expenses	2,053	1,494
Postage	746	158
Engineering	1,500	1,100
Total expenses from operations	290,581	222,466
Operating Income (Loss)	(50,379)	8,474
Non-Operating Revenues (Expenses):		
ARPA Funding	88,755	0
Interest income	174	76
Total non-operating revenues (expenses)	88,929	76
Change in Net Position	38,550	8,550
Total Net Position, beginning of period	244,716	236,166
Total Net Position, end of period	\$ 283,266	244,716

The accompanying notes to the financial statements are an integral part of this statement

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
Statement of Cash Flows
For the Year Ended June 30, 2023

	2022-23	-Memorandum- -Only- 2021-22
Cash flows from operating activities:		
Receipts from customers	\$ 239,714	229,907
Payments to vendors	(270,261)	(204,179)
Net cash provided by (used in) operating activities	(30,547)	25,728
 Cash flows from capital and related financing activities:		
ARPA Funding	88,755	0
Capital assets purchased	(8,250)	0
Total cash flows from capital and related financing activities	80,505	0
 Cash flows from investing activities:		
Interest income	174	61
 Net increase (decrease) in cash and cash equivalents	50,132	25,789
 Cash & cash equivalents, beginning of period	117,119	91,330
 Cash & cash equivalents, end of period	\$ 167,251	117,119
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ (50,379)	8,550
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	20,476	20,063
Amortization Expense	435	435
(Increase) decrease in current assets-		
Accounts receivable, net	(488)	(1,048)
Prepaid expenses	(591)	(91)
Increase (decrease) in current liabilities-		
Accounts payable	0	(2,120)
Net Cash Provided by Operating Activities	\$ (30,547)	25,789

The accompanying notes are an integral part of the financial statements

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023

Note 1 – Significant Accounting Policies

Business Activity

Hughes County Rural Water District No. 4 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Hughes County Rural Water District No. 4. The District's primary income is from the sale of water to its members in an area around Holdenville, Oklahoma.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at June 30, 2023 are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 167,251</u>

The District's cash deposits at June 30, 2023 are categorized to give an indication of the level of risk assumed by the district at year-end. All funds are covered by the \$250,000 of FDIC coverage.

Investments

The District had no investments at June 30, 2023.

Accounts Receivable

Billings for accounts receivable at June 30, 2023 were \$18,352. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements. The aging of these accounts is detailed as follows:

00-30 days	\$ 18,352
31-90 days	<u> 0</u>
Total	<u>\$ 18,352</u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023**

Note 1 – Significant Accounting Policies – cont’d

Capital Assets

Capital (fixed) assets are defined as any items purchased or built in excess of \$1,000, and with a useful life of two year or more. They are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from 10 to 33 1/3 years.

The capital asset information for the District is shown below:

	7/1/2022 Amount	Additions	Deletions	6/30/2023 Amount
Water system	\$ 653,428	-	-	653,428
Other equipment	10,182	8,250	-	18,432
Total Capital Assets	663,610	8,250	-	671,860
Less: Accumulated Depreciation	(557,992)	(20,476)	-	(578,468)
Total	<u>\$ 105,618</u>	<u>(12,226)</u>	<u>-</u>	<u>93,392</u>

Other Assets

- a. There were note issuance costs totaling \$11,750 incurred during the 1997-98 fiscal year as part of processing the OWRB loan. This amount consisted of the following: Legal fees - \$8,500, Rating fees - \$2,500, and Acceptance fees - \$750. These loan fees will be recognized as amortization expenses over the life of the 27 year promissory note.
- b. The District maintains a \$1,000 deposit with the Oklahoma Water Resources Board Assurance Group in lieu of a membership fee. Interest is paid to the District on this deposit.

Inventories

The District does not carry a significant inventory of materials and supplies. The cost of such items is recorded as an expense when purchased.

HUGHES COUNTY RURAL WATER DISTRICT NO. 4
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2023

Note 1 – Significant Accounting Policies – cont’d

Income Taxes

The District is recognized as a tax-exempt organization under the Internal Revenue Code. Because the District is exempt from federal income tax, no provision for taxes has been made in the financial statements.

Insurance

The District had adequate insurance to cover all major perils at June 30, 2023 and has had no significant claims against insurance coverage in the previous three years.

Note 2 – Long-Term Debt

The District has no outstanding long-term debt.

Note 3 – ARPA Funding

The District was awarded \$120,000 in ARPA funding for 2022-23. The District received \$50,379 of these funds in 2022-23 for various projects. These federal funds are facilitated through the Hughes County Commissioner’s Office.

Note 4 – Contingencies

Subsequent Events

Management has evaluated subsequent events through September 15, 2023, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

HUGHES COUNTY RURAL DISTRICT NO. 4
Schedule of Water Rates and Customers
-Unaudited Information-
June 30, 2023

Water Rates

Minimum bill	=	\$32.00
1,000 gallons +	=	\$8.00 per 1000 gallons

Customers

The District had 302 customers at the close of the fiscal year.

Current membership fee is \$1,500.